

Insighter


STORM™

Fall 2008

KEY MANAGEMENT NEWSLETTER & UPDATES

MANAGING THROUGH CHALLENGING TIMES

The economy has recently finished a very long run in terms of overall economic growth from 2000 until this past year. During this period it was easy to forget that economic downturns, just like growth, are part of the economic cycle. Companies are now faced with a combination of deteriorating business conditions and inflation levels not seen in recent years.

While history often repeats itself (there have been six recessions since 1970) there are few CEO's around today that have direct experience with recessionary pressures and high inflation during their tenures. Couple this with an average CEO tenure of less than three years, and you have leadership with limited experience with effective strategies and tactics in difficult times.

Experienced leadership realizes that difficult times also present opportunity and therefore focus on both tactics and long-term strategy, while inexperienced leaders tend to focus on short-term incremental actions that ultimately fall short of what is required to successfully navigate through a downturn in business.

THINGS WILL GET BETTER...

One of the biggest pitfalls we find is a "*things will get better*" approach that relies on the passing of time vs. a clear and decisive action plan to get through a downturn.

Management teams who have focused on top line growth are often slow to recognize when their fortunes have reversed and seek reasons to delay action rather than to anticipate and get ahead of deteriorating business conditions.

As a result of these delays, they are often faced with taking dramatic actions in a crisis mode.

Of course, if the downturn is short and mild, this approach may work fine. However, if the downturn is long and severe, companies adopting this approach find themselves chasing a downward spiral of deteriorating financial performance, covenant defaults, and cash shortages that is best summarized as "*too little too late*".

The key is both knowing AND executing the required actions in a timely manner. It is the latter where many companies need assistance.

If you are receiving monthly performance reports that state:

❖ ***"The situation should rebound"***

❖ ***"We must keep the team together"***

❖ ***"We are isolated or different"***

❖ ***"The competition is just buying the business"***

❖ ***"We can't afford to cut anymore"***

...Then prepare for the worst!

BATTENING DOWN THE HATCHES...

In the process of "*battening down the hatches*" companies tend to focus on short term tactics and avoid pursuing projects and changes that can provide long term strategic value. However, with challenging times also come great opportunities.

Pricing strategy changes is an example of a major opportunity in difficult times. For many companies their entire strategy over the past 5 years consisted of passing along annual 1% to 3% price increases. Now, faced with frequent supplier price increases, the first mistake companies make is reacting too slowly and too infrequently to rising material and energy costs. When they do react it is often with a simple "across the board" price increase to regain some historical reference point.

In difficult times, pricing strategy requires a more sophisticated approach to address fundamental changes in the business. While unpopular, inflation driven price increases actually present a major opportunity to re-evaluate and improve existing pricing strategies.

For example, we find some companies still provide free freight and delivery to customers. However, many lack the analytics and methodology to accurately capture and pass along the internal impact of double digit freight and fuel cost. With double digit fuel increases, they are always behind the curve in passing along these costs.

Rather than attempting to just recapture the cost through price increases, the real opportunity may be to significantly reduce or eliminate this practice thus reducing the overall risk of fuel and energy in the profit equation.

Unfortunately, companies are slow to change pricing models and practices and change only comes after significant deterioration in profits.

GET US INVOLVED EARLY...

*At **STORM**, our management experience spans both good and bad times. We have successfully navigated through the issues that are once again prevalent in today's business environment. We can work with management and help guide them to the appropriate actions and execute plans to restore financial health and recognize opportunities among diversity. The key is to get us involved early when there is both time and alternatives in developing and implementing successful action plans.*

***Actions
sooner
avoid
much
more
serious
problems
later!***

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